



ARCO RESOURCES CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)

NINE MONTHS ENDED JANUARY 31 2017

## NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed interim consolidated financial statements have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.



**ARCO RESOURCES CORP.**
**Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**

Unaudited – Prepared by Management

Expressed in Canadian dollars

	Note	Three months ended January 31, 2017	Three months ended January 31, 2016	Nine months ended January 31, 2017	Nine months ended January 31, 2016
		\$	\$	\$	\$
<b>Expenses</b>					
Professional fees		2,600	3,000	5,491	10,540
Consulting fees	11	22,500	9,000	37,500	37,000
Management fees and benefits	11	30,000	6,750	43,500	20,250
Office and miscellaneous		8,620	4,416	14,356	8,893
Rent		9,000	9,000	27,000	27,000
Shareholder communication		1,067	1,102	4,476	2,638
Transfer agent and filing fees		552	1,679	4,007	5,115
Travel		-	-	267	380
Expense Recovery		-	-	-	(311,833)
<b>Net income (loss) before other items</b>		<b>(74,339)</b>	<b>(34,947)</b>	<b>(136,597)</b>	<b>200,019</b>
<b>Other income (expense)</b>					
Interest expense and financing fees	6	(1,102)	(2,047)	(3,307)	(6,142)
Foreign exchange gain (loss)		1,260	(3,475)	4,518	(8,957)
<b>Net income (loss) for the period</b>		<b>(74,181)</b>	<b>(40,469)</b>	<b>(135,386)</b>	<b>184,920</b>
<b>Basic and diluted income (loss) per common share</b>					
		(0.01)	(0.01)	(0.01)	0.05
<b>Weighted average number of common shares outstanding, basic and diluted</b>					
		9,387,323	4,525,523	9,387,323	4,075,726

The accompanying notes are an integral part of these consolidated financial statements.

**ARCO RESOURCES CORP.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
 Unaudited – Prepared by Management  
 Expressed in Canadian dollars

	January 31 2017	January 31 2016
	\$	\$
<b>Cash flow provided by (used in)</b>		
<b>Operating activities</b>		
Income (loss) for the period	(135,386)	184,920
Adjustments for:		
Unrealized foreign exchange gain (loss)	2,036	7,976
Expense recovery	-	(311,833)
Interest expense and financing fees	3,307	6,143
Changes in non-operating working capital items:		
Amounts receivable	(2,231)	19,629
Accounts payable and accrued liabilities	89,521	73,237
Due to related parties	77,453	20,250
<b>Net cash used in operations</b>	<b>34,700</b>	<b>322</b>
<b>Increase (decrease) in cash in the period</b>	<b>34,700</b>	<b>322</b>
<b>Cash, beginning of period</b>	<b>516</b>	<b>235</b>
<b>Cash, end of period</b>	<b>35,216</b>	<b>557</b>

**Supplemental disclosure with respect to cash flows (Note 15)**

The accompanying notes are an integral part of these consolidated financial statements.

**ARCO RESOURCES CORP.****Condensed Interim Consolidated Statement of Changes in Deficiency**

Unaudited – Prepared by Management

Expressed in Canadian dollars

	Number of Common shares	Amount \$	Reserves \$	Deficit \$	Deficiency \$
<b>April 30, 2015</b>	2,506,923	13,433,209	1,374,900	(15,523,849)	(715,740)
Realized cumulative translation adjustment	-	-	-	-	-
Debt Settlement	2,018,600	100,930	-	-	100,930
Income for the period	-	-	-	184,920	184,920
<b>January 31, 2016</b>	4,525,523	13,534,139	1,374,900	(15,338,929)	(429,890)
Debt settlement	4,861,800	243,090	-	-	243,090
Loss for the period	-	-	-	(137,369)	(177,838)
<b>April 30, 2016</b>	9,387,323	13,777,229	1,374,900	(15,476,298)	(324,169)
Loss for the period	-	-	-	(135,386)	(135,386)
<b>January 31, 2017</b>	9,387,323	13,777,229	1,374,900	(15,611,684)	(459,555)

The accompanying notes are an integral part of these consolidated financial statements.

## ARCO RESOURCES CORP.

### Notes to the consolidated financial statements

Unaudited – Prepared by Management

Expressed in Canadian dollars

Nine months ended January 31, 2017

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#### 1. Nature and Continuance of Operations

Arco Resources Corp. (the "Company") was incorporated in 2006 under the Business Corporations Act (British Columbia). The Company engages in the acquisition, exploration and development of mineral properties. The Company is in the exploration stage and has not yet determined whether any of its properties contain economically recoverable ore reserves. The head office of the Company is in Vancouver, BC, Canada.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to develop its business and commence profitable operations in the future. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. These condensed interim consolidated financial statements were authorized for issue on March 17, 2017 by the Board of Directors of the Company.

#### 2. Basis of Presentation

##### a) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Financial Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

##### b) Basis of presentation

The financial statements have been prepared using the same accounting policies and methods as those used in the financial statements for the year ended April 30, 2016, except for the impact of the adoption of the accounting standard described below. These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified at fair value through profit and loss, which are stated at their fair value and are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise indicated. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended April 30, 2016.

##### c) Going concern of operations

The Company has not generated revenue from operations. The Company had a loss of \$135,386 (2016 – income of \$184,920) during the nine months ended January 31, 2017 and, as of that date the Company's deficit was \$15,611,684 (April 30, 2016 - 15,476,298). The Company is dependent on its ability to place additional debt or equity to raise sufficient cash resources to meet its current financial obligations. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. The Company had cash of \$35,216 at January 31, 2017 (April 30, 2016 - \$516), which is insufficient to finance planned expenditures for the coming year.

## ARCO RESOURCES CORP.

### Notes to the consolidated financial statements

Unaudited – Prepared by Management

Expressed in Canadian dollars

Nine months ended January 31, 2017

#### 2. Basis of Presentation (cont'd)

##### d) Principles of consolidation

These condensed interim consolidated financial statements include the accounts of Arco and its wholly-owned subsidiaries:

Entity	Jurisdiction	Status
0754257 BC Ltd.	British Columbia, Canada	Inactive
CHM Ventures Inc.	Colorado, USA	Inactive
CHM Ventures, LLC	Colorado, USA	Inactive

All significant intercompany transactions have been eliminated on consolidation of the accounts.

#### 3. Adoption of New Accounting Pronouncements and Recent Developments

The following new standards, and amendments to standards and interpretations, are not yet effective for the current period and have not been applied in preparing these financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below:

- i) *IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018.*
- ii) *IAS 27: Amended to restore option to use equity method to account for investments in subsidiaries, joint ventures and associates for annual period beginning on or after January 1, 2016.*
- iii) *Partial replacement of IAS 39 Financial Instruments: Recognition and Measurement. This standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of this standard.*

#### 4. Receivables

The receivable balance of \$12,147 (April 30, 2016 - \$9,916) was for recoverable government sales tax.

#### 5. Accounts payable and accrued liabilities

	January 31 2017	April 30 2016
Accounts payable	\$ 207,642	\$ 211,856
Accrued liabilities	37,600	14,200
	\$ 245,242	\$ 226,056

#### 6. Loans payable

At January 31, 2017, loans payable by the Company are \$44,643 (April 30, 2016 - \$41,336). Details of the loans are as follows:

On May 8, 2014, the Company obtained a loan for \$25,000 from a Director of the Company, to fund a deposit on the acquisition of an aquaculture company. The Company agreed to pay the lender a bonus of \$3,750 for providing the loan. The loan bears interest at an annual rate of 15.8% from August 8, 2014 until the date of repayment. During the year ended April 30, 2016, the Company accrued interest of \$3,031 (2015: \$3,863). On February 19, 2016, \$35,000 of the loan and interest payable was settled by the issuance of shares (Note 10). As at January 31, 2017, accrued interest in the amount of \$644 (April 30, 2016 - \$644) was payable. This loan is payable on demand.

On September 9, 2014, the Company obtained a loan for \$29,154 from a Director of the Company, to fund operating expenses. The Company agreed to pay the lender a bonus of \$4,373 for providing the loan. The loan bears interest at an annual rate of 15% from September 9, 2014 until the date of repayment. During the nine months ended January 31, 2017, the Company accrued interest of \$3,307 (2015: \$6,142). As at January 31, 2017, accrued interest in the amount of \$10,471 (April 30, 2016 - \$7,165) was payable. This loan is payable on demand.

## ARCO RESOURCES CORP.

### Notes to the consolidated financial statements

Unaudited – Prepared by Management

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#### 7. Reclamation provision

The Company's reclamation provision relates to properties held by the Company's inactive US subsidiary, CHM Ventures, LLC. The properties in this subsidiary have all been written off.

The Company deposited US\$38,744 with the Division of Reclamation, Mining and Safety in Colorado, USA ("Division of Mining") and at January 31, 2017 recorded a reclamation provision of CDN\$50,670 (April 30, 2016 - \$48,634). Although the Company does not expect that it will be required to perform significant reclamation activities, it has recorded a provision for reclamation costs based on management's best estimates of the cost for the associated reclamation work. This bond represents the Company's best estimate of the fair value of reclamation costs associated with the Company's properties. This US\$38,744 deposit will be refunded once the Division of Mining is satisfied that the Company has performed all necessary decommissioning activities. The deposit was written off by the Company in prior years.

#### 8. Share capital

##### *Authorized*

Unlimited common shares with no par value.

##### *Issued share capital*

At January 31, 2017 and April 30, 2016, the issued and outstanding share capital is comprised of 9,387,323 common shares.

Please refer to the condensed interim consolidated Statement of Changes in Equity for a summary of changes in share capital and reserves for the nine months ended January 31, 2017. Reserves relate to stock options, agent's unit options, and compensatory warrants that have been issued by the Company.

##### *Share issuances*

On June 3, 2015, the Company entered into debt settlement agreements with certain creditors whereby accounts payable in the aggregate amount of \$315,980 were settled for the reduced aggregate amount of \$100,930. The Company issued an aggregate of 2,018,600 common shares of the Company at a deemed issue price of \$0.05 per share in satisfaction of the aggregate debt.

On February 19, 2016, the Company completed shares-for-debt transactions with various creditors of the Company to settle a total of \$243,090 in accounts payable and loans to the Company, including related party balances in the amount of \$21,750. The Company issued units in its capital stock at a deemed price of \$0.05 per unit, issuing 4,861,800 common shares and 4,292,800 common share purchase warrants, each exercisable to purchase one additional common share at a price of \$0.075 for a period of 18 months.

On September 28, 2016, the Company announced an equity financing by way of a private placement of up to 20,000,000 common shares in the capital of the Company at a price of \$0.05 per common share for gross proceeds of up to \$1,000,000 (the "Offering"). The proceeds of the Offering will be used for working capital and general corporate purposes, and will include exploration work on the Company's mineral properties located in Mexico. The Company had received and held \$165,000 in cash in share subscriptions during the period, however as at January 31, 2017, the Company had refunded those subscription receipts and held only \$35,024 in cash in share subscriptions. Subsequent to the period, the Company cancelled the equity financing.

##### *Warrants*

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Expiry Date
Balance, April 30, 2015 and 2014	-	\$ -	
Issued	Nil	N/A	
Balance, January 31, 2016	-	\$ -	
Issued	4,292,800	0.075	August 19, 2017
Balance, April 30, 2016	4,292,800	\$ 0.075	
Issued	Nil	N/A	
Balance, January 31, 2017	4,292,800	\$ 0.075	August 19, 2017

**ARCO RESOURCES CORP.****Notes to the consolidated financial statements**

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**9. Reserves**

Reserves comprise the fair value of share option grants and warrants prior to exercise and cumulative unrealized gains and losses on foreign exchange and marketable securities.

The following is a summary of changes in reserves from April 30, 2014 to January 31, 2017:

	Share-based payments	Unrealized gain (loss) on available for sale investments	Unrealized foreign exchange gain (loss)	Total
April 30, 2014	\$ 1,374,900	\$ -	\$ (4,769)	\$ 1,370,131
Realized cumulative translation adjustment	-	-	4,769	4,769
April 30, 2015 and 2016 and January 31, 2017	\$ 1,374,900	\$ -	\$ -	\$ 1,374,900

**10. Share-based payments**

The Company follows the policies of the TSX Venture Exchange, under which it is authorized to grant incentive share options to officers, directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option equals the market price of the Company's common shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years. The vesting period for all options is at the discretion of the Board of Directors. At January 31, 2017, the number of share options available for grant was 938,732.

A summary of the Company's incentive share options outstanding and exercisable and the changes is presented below:

	Number of common share options	Weighted average exercise price per share
April 30, 2014	123,167	\$ 3.00
Forfeited or expired	(123,167)	3.00
April 30, 2015 and 2016 and January 31, 2017	-	\$ -

**11. Related party transactions**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include the Company's executive officers and Board of Director members.

The aggregate value of transactions relating to key management personnel were as follows:

Nine months ended January 31	2017	2016
Management fees paid or accrued to a company controlled by the CEO	\$ 30,000	\$ -
Management fees paid or accrued to a company controlled by the CFO	20,250	20,250
Consulting fees paid or accrued to a company controlled by a director	37,500	-
	\$ 87,750	\$ 20,250

The transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

At January 31, 2017, \$166,363 (April 30, 2016, \$18,575) was due companies controlled by either an officer or director of the Company. The amounts are unsecured, non-interest bearing, and have no stated terms of repayment.

During the year ended April 30, 2016, the Company settled balances due to related parties totaling \$166,490 by issuing 915,000 common shares at a price of \$0.05 per share with a total fair value of \$45,750 and recording related debt forgiveness in the amount of \$120,740.

## ARCO RESOURCES CORP.

### Notes to the consolidated financial statements

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Nine months ended January 31, 2017

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#### 12. Financial instruments – risk management

##### *Credit Risk*

The Company is exposed to credit risk with respect to amounts receivable if a creditor fails to meet its contractual obligations. The Company undertakes credit evaluations on creditors as necessary and has monitoring processes intended to mitigate credit risks and maintain appropriate provisions for potential credit losses.

The Company is exposed to credit risk with respect to cash and amounts receivable. The carrying amount of assets included on the statement of financial position represents the maximum credit exposure.

##### *Liquidity Risk*

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. The Company's growth strategy requires additional cash from debt, the issuance of equity or a combination. As at January 31, 2017, the Company was holding cash of \$35,216. The Company plans to undertake further share capital financings but there can be no guarantee that management's efforts to raise additional funds will be successful.

##### *Interest Rate Risk*

The Company is not exposed to significant interest rate risks arising from financial instruments.

##### *Commodity Price Risk*

The Company is exposed to price risk with respect to commodity prices of precious minerals. The Company considers the risk exposure to fluctuating market prices and trends will have significant impact on the ability to secure financing.

##### *Currency Price Risk*

The Company is exposed to foreign exchange risk as it finances its operations in Canadian dollars but undertakes a proportion of its operations in US dollars and Mexican pesos. The Company does not engage in any form of derivative or hedging instruments. The Canadian dollar equivalent of foreign currency balances were:

<u>January 31, 2017</u>	<u>Mexican pesos</u>	<u>US dollars</u>
Cash	-	-
Accounts payable	53,054	-
<u>April 30, 2016</u>	<u>Mexican pesos</u>	<u>US dollars</u>
Cash	-	5
Accounts payable	59,608	-

#### 13. Capital management

The Company considers its management of capital to include all components of debt and shareholders' equity. Its objectives are to ensure that the Company continues to operate as a going concern, if possible, in order to pursue the operation and the development of its mineral properties, to sustain future development and growth as well as to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, seek debt financing, or acquire or dispose of assets. The Company, with approval from its board of directors, makes changes to its capital structure as it deems appropriate under specific circumstances.

#### 14. Segment information

At January 31, 2017 and 2016, the Company operates in only one reporting segment, being Canada.

**ARCO RESOURCES CORP.**

**Notes to the consolidated financial statements**

Unaudited – Prepared by Management

Expressed in Canadian dollars

Nine months ended January 31, 2017

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**15. Supplemental disclosure with respect to cash flows**

	Nine months ended	
	January 31, 2017	January 31, 2016
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

During the period ended January 31, 2017, the non-cash transactions were the transfer of \$70,336 of accounts payable to due to related parties.

There were no significant non-cash transactions during the period ended January 31, 2016.